

# Thrift Savings Plan



# TSP Loan Program

**August 2002**

**Federal Retirement  
Thrift Investment Board**

---

## ***To help make your loan request go smoothly:***

- ☐ If your address has recently changed, notify your agency or service before you begin the loan application process. Make sure your address in your TSP account record is correct before you submit your request.
- ☐ Apply only if you have at least \$1,000 of your own contributions and attributable earnings in your civilian or uniformed services TSP account.
- ☐ Estimate the maximum loan for which you are eligible by visiting the TSP Web site at [www.tsp.gov](http://www.tsp.gov) or by calling the ThriftLine at (504) 255-8777. You may also use the worksheet in Appendix 3.
- ☐ If you submit your loan request on the TSP Web site, you will need to enter your Social Security number (SSN) and your 4-digit TSP Personal Identification Number (PIN). If you have lost or forgotten your PIN, you may request a new one on the Web, on the ThriftLine, or by calling the TSP Service Office.
- ☐ Keep copies of any documents or forms that you submit to the TSP Service Office.

## ***To avoid problems with your loan:***

- ☐ Check your earnings and leave statements to make sure your loan payments are being deducted in the correct amount every pay period.
- ☐ To get information on an outstanding loan, visit the TSP Web site or call the ThriftLine.
- ☐ Review the loan information on your quarterly participant statement.
- ☐ If you receive a notice from the TSP Service Office indicating that you have missed loan payments, act quickly to correct the problem. Failure to do so may result in a taxable distribution.
- ☐ If you send an additional payment to the TSP Service Office, enclose a completed copy of the Loan Payment Coupon in Appendix 4. The coupon is also available on the TSP Web site. Also, be sure to write your SSN and loan number on the check.

# **Table of Contents**

The Thrift Savings Plan Loan Program .....	i
I. Eligibility for a TSP Loan .....	1
II. The Effect of a Loan on Your TSP Account .....	2
III. Rules for Borrowing .....	4
IV. Applying for a Loan .....	9
V. Repaying a Loan .....	14
VI. Taxable Loan Distributions .....	21
APPENDIX 1. The Cost of TSP Loans .....	24
APPENDIX 2. Requirements for Residential Loan Documentation .....	27
APPENDIX 3. Worksheet for Estimating Your Maximum Loan Amount. ....	29
APPENDIX 4. Loan Payment Coupon .....	31

# The Thrift Savings Plan Loan Program

This booklet explains the features of the Thrift Savings Plan (TSP) Loan Program, how it works, and your responsibilities when you borrow from your civilian or uniformed services TSP account.

If after reading this booklet you have questions about the loan program which your agency or service cannot answer, you can contact the TSP Service Office Monday through Friday, 7:00 a.m. to 4:30 p.m. central time, by calling the ThriftLine at (504) 255-8777 (TDD: (504) 255-5113) and selecting the option on the ThriftLine menu to speak to a participant service representative. You can also write to the TSP Service Office at:

TSP Service Office  
National Finance Center  
P.O. Box 61500  
New Orleans, LA 70161-1500

The following sources of TSP information are available 24 hours a day, 7 days a week:

**TSP Web site: [www.tsp.gov](http://www.tsp.gov)**

The TSP Web site provides general information, forms and publications, and a loan calculator to estimate loan payments. In addition, you can access your account to determine the amount available for you to borrow, initiate (and, in some cases, complete) a loan request, reamortize your loan, or find out your outstanding loan balance and obtain prepayment information.

**ThriftLine: (504) 255-8777**

On the ThriftLine, you can obtain the amount available for you to borrow and the current loan interest rate, or obtain prepayment information.

You will need your Social Security number and your TSP Personal Identification Number (PIN) in order to access your personal account information on either the TSP Web site or the ThriftLine. If you have forgotten your PIN, you can request a new one from the Web site, the ThriftLine, or the TSP Service Office.

## **I. Eligibility for a TSP Loan**

TSP participants can borrow from their own accounts while they are employed as Federal civilian employees or are serving as members of the uniformed services.

You can apply for a loan if:

- ☐ you are a current employee or service member (separated and retired TSP participants are not eligible), and
- ☐ you are in pay status (loans are repaid through payroll deductions), and
- ☐ you have *at least \$1,000* of your own contributions and their earnings in your civilian or uniformed services TSP account.

You can borrow from your TSP account even if you have stopped contributing your own money.

Participants who are both Federal civilian employees and members of the uniformed services (for example, members of the Ready Reserve) may have a TSP account related to each type of employment and thus will have two separate accounts. The eligibility requirements stated above apply to the account from which you intend to borrow.

---

## **II. The Effect of a Loan on Your TSP Account**

### **How does the money come out of my account?**

When you borrow from your TSP account, your account balance is decreased by the amount of your loan. If your account is invested in more than one fund, your loan is deducted *pro rata* from your employee contributions (and earnings on those contributions) that you have in each fund. For example, if you have employee contributions and attributable earnings of \$20,000, which include \$12,000 in the Common Stock Index Investment (C) Fund and \$8,000 in the Government Securities Investment (G) Fund, your loan request of \$2,000 would be funded by \$1,200 from the C Fund and \$800 from the G Fund.

### **How does the money go back into my account?**

Loan payments, including principal and interest, are deducted by your agency or service from your pay each pay period until the loan is repaid in full. As you repay the loan, your loan payments will be invested in the various investment funds in your account according to your most recent contribution allocation. For example, if you have chosen to allocate 60 percent of your TSP payroll contribution to the C Fund and 40 percent to the G Fund, and if your loan payment is \$100 per pay period, \$60 of your loan payment would be invested in the C Fund, and \$40 would be invested in the G Fund. If you change your contribution allocation, the allocation of your loan payments will also change.

### **How does a loan affect my final account balance?**

Although funds are restored to your account when you make loan payments, borrowing from your account will affect the final account balance available for your retirement.

The five TSP investment funds have different rates of return. Because of the difference between the interest you pay on your loan (that is, the G Fund rate at the time your application was processed) and the rates of return in the five investment funds over the life of the loan, the earnings in your account when your loan is fully repaid are likely to be different from what your earnings would have been if you had not taken the loan.

Therefore, even though you pay back your loan with interest, *you may have less money in your account at retirement* than if you had not borrowed from it.

So, first determine whether you really need to borrow at all. If you must borrow, you should compare the costs of borrowing from your TSP account to the costs of borrowing from other sources, such as a bank or mortgage company. See Appendix 1, The Cost of TSP Loans, for an explanation and examples of how to make this comparison. It is *not* enough simply to compare loan interest rates. The cost of borrowing from your TSP account is the difference between your net earnings when you borrow from a bank (or other lending source) and your net earnings when you borrow from your TSP account. When you make the comparison correctly, you may find that it is less costly to borrow elsewhere than from your TSP account.

Taking a TSP loan can also affect your account if you are unable to make your loan payments on a regular basis, for example, if you are a member of the Ready Reserve or a civilian on an intermittent pay schedule. Missed loan payments will require that you make up the missed amounts from your own funds or have a taxable distribution of your loan declared, which can have adverse tax consequences. (See Section V, Repaying a Loan.)

If you are a civilian TSP participant in a nonpay status or you are a member of the uniformed services who is not currently receiving pay (generally a possibility only for members of the Ready Reserve), you are not eligible for a TSP loan. However, you may be eligible for an in-service withdrawal if you are over age 59½ or you can demonstrate financial hardship. Read the booklet *TSP In-Service Withdrawals*, available from the TSP Web site, your agency or service, or the TSP Service Office.

## III. Rules for Borrowing

### For what purposes can I get a loan?

There are two types of loans:

- ☐ A **general purpose loan**, which does not require you to document or specify the purpose of your loan.
- ☐ A **residential loan**, which is only for the purchase or construction of a primary residence.

For a residential loan, the residence can be a house, condominium, shares in a cooperative housing corporation, or a townhouse, boat, mobile home, or recreational vehicle, but it must be used as your primary residence. The residence must be purchased (in whole or in part) by you. You may obtain a residential loan for constructing a new residence or purchasing an existing residence, but **not** for refinancing or prepaying an existing mortgage, for renovations, for buying out another person's share in your current residence, or for the purchase of land only.

The amount that you request for a residential loan must be documented, as described in Appendix 2. If you have expenses related to your residence which do not qualify as a purchase or construction of your primary residence, you may finance them with a general purpose loan.

You are not required to put up property or security (collateral) for your loan.

### How much can I borrow?

You may borrow only from your own contributions and their earnings. You can estimate the amount you have available to borrow by accessing your account on the TSP Web site ([www.tsp.gov](http://www.tsp.gov)), by calling the ThriftLine at (504) 255-8777, or by completing the worksheet in Appendix 3.

*Minimum loan amount.* The smallest amount you can borrow is \$1,000. Therefore, you must have at least \$1,000 of your own contributions and attributable earnings in the account from which you take the loan.



**Maximum loan amount.** The Federal Employees' Retirement System Act (FERSA) of 1986 and the Internal Revenue Code limit the amount you can borrow:

- ☐ You can never borrow more from your civilian account or from your uniformed services account than the amount of your own contributions and their earnings in that account.
- ☐ If you have not had a TSP loan outstanding during the past year and your total TSP contributions and their earnings are \$10,000 or less, you can borrow up to the full amount of your contributions and earnings.
- ☐ If you have had a TSP loan outstanding during the past year, or if your total TSP contributions and their earnings are greater than \$10,000, the maximum amount you can borrow is affected. Access the TSP Web site, call the ThriftLine, or use the worksheet in Appendix 3 to estimate it.
- ☐ You cannot borrow more than \$50,000.

Appendix 3 provides more information on these limits. (If you have both a civilian and uniformed services account, the maximum loan amount available for you to borrow will be based on calculations that consider the account balances and outstanding loan balances for both accounts.)

## **What is the interest rate on a TSP loan?**

The loan interest rate you pay for the life of the loan is the latest available interest rate for the G Fund at the time your application is processed.

**Note:** The loan interest rate will remain fixed for the life of the loan with one exception. If the loan is from your civilian account and you have a period of missed payments because you were called to active military duty subject to the Soldiers' and Sailors' Civil Relief Act of 1940 (50 U.S.C. app. § 526), you may elect to reduce the interest rate on your TSP loan to 6 percent for the period of your military duty. To do so, notify the TSP Service Office after you return from military duty.

## **How long do I have to repay my loan?**

You may choose the amount of time you want to repay the loan, within limits. The loan repayment period must be at least one year.

You may choose a period between 1 and 5 years to repay a general purpose loan and between 1 and 15 years to repay a residential loan.

If you would like to estimate the amount or term of your loan payments based on the currently applicable (G Fund) interest rate, you can use the loan calculator on the TSP Web site.

### **Can I get a loan if I am not currently receiving pay?**

No. When a loan is issued, payroll deductions to repay your TSP loan are established by your Federal civilian or uniformed services payroll office. Therefore, if you are not currently receiving pay, you will not be able to apply for a TSP loan. The TSP refers to this status as “nonpay.” For civilian TSP participants, this includes leave without pay, furlough, etc. Most uniformed services members will never be in a nonpay status. However, members of the Ready Reserve whose drilling intervals are irregular (i.e., other than monthly) and therefore do not receive pay each month are considered, for TSP purposes, to be in a nonpay status during the months they do not drill. When you return to pay status, you may apply for a TSP loan.

If you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an Intergovernmental Personnel Act (IPA) assignment, you are eligible to apply for a TSP loan. Call or write the TSP Service Office for more information.

### **How many loans can I have from my civilian or uniformed services TSP account at one time?**

You may have two loans outstanding from a TSP account at any one time. You may have two general purpose loans or one general purpose and one residential loan. You may not have two residential loans.

Do not submit two applications simultaneously; only one application can be processed at a time.

If you have both a civilian and a uniformed services account, you may have two outstanding loans from each account, subject to the same rules and limitations specified in this booklet.

## Do my spouse's rights affect my loan?

Yes. The law provides certain rights to spouses of TSP participants. When you request a TSP loan, you must indicate whether you are married, even if you are separated from your spouse.

*If you are a FERS participant or a member of the uniformed services and you are married, your spouse must consent to your TSP loan by signing the Loan Agreement that the TSP Service Office will send you (or that you print from the TSP Web site, if you request a loan on-line). If you are a married CSRS participant, the TSP must notify your spouse when you apply for a loan.\**

Under certain circumstances, exceptions may be made. If your spouse's whereabouts are unknown, or if exceptional circumstances (applicable to FERS and uniformed services only) make it inappropriate to obtain your spouse's signature, you can apply for an exception by submitting Form TSP-16 (for civilians) or Form TSP-U-16 (for members of the uniformed services), Exception to Spousal Requirements. **The criteria for supporting a claim on the basis of exceptional circumstances are strict. The fact that there is a separation agreement, a prenuptial agreement, a protective order, or a divorce petition does not in itself support a claim of exceptional circumstances.**

For more information on establishing an exception to the spouses' rights requirements, refer to Form TSP-16 or Form TSP-U-16, available from the TSP Web site, your agency or service, or the TSP Service Office.

The TSP will pursue, and refer to the Department of Justice for prosecution, any person who attempts to deprive a spouse of his or her TSP rights by forging the spouse's signature, by lying about the participant's marital status, or by similar fraudulent actions.

---

\* FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans. For TSP purposes, the uniformed services includes members of the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration, as well as members of the Ready Reserve, including the National Guard. If you are not sure of your retirement coverage, contact your personnel office.

**If there is a court order against my account, will I be able to get a loan?**

No. The TSP must honor certain orders, such as those that enforce payment of child support or alimony or that award a portion of your account to a former spouse. When the TSP receives a court order, a hold is placed on your account. A pending loan cannot be approved and disbursed until the court order process has been completed.

For more information about court orders, read the booklet *Court Orders and the TSP*, available from the TSP Web site, your agency or service, or the TSP Service Office.

## **IV. Applying for a Loan**

### **How do I apply for a loan?**

You can initiate your loan request in one of two ways:

- ☐ You can use the TSP Web site at [www.tsp.gov](http://www.tsp.gov). This is the most efficient way to request a loan. To access your account in the secure area of the Web site, you will need your Social Security number (SSN) and your TSP Personal Identification Number (PIN).

Your ability to complete a loan request on the Web will depend on several factors, including your retirement system coverage (FERS, CSRS, or uniformed services), marital status, and type of loan. If you initiate your loan request on the Web, you will be given step-by-step instructions. If you cannot complete the loan request on the Web, you will be instructed to print out the partially completed Loan Agreement and mail it to the TSP Service Office with any additional required information.

- ☐ You can use the Loan Application (Form TSP-20 for civilian accounts; Form TSP-U-20 for uniformed services accounts) available on the TSP Web site at [www.tsp.gov](http://www.tsp.gov) or from your agency or service. If you have two TSP accounts, your application applies only to the account to which your form refers. When you have completed the form, mail it to the TSP Service Office at the address on the form. Do *not* send your application to your agency or service; only the TSP Service Office can process a TSP loan.

You can learn the amount available for you to borrow, as well as the current loan interest rate, by visiting the TSP Web site or by calling the ThriftLine.

### **What information do I need to request a loan?**

Initially, whether you apply on the Web site or on a paper form, you will need to indicate the following:

- ☐ the amount you wish to borrow
- ☐ the type of loan — either general purpose or residential
- ☐ the length of time you want to repay the loan

- ☐ your pay schedule, for civilian accounts — weekly, biweekly, semimonthly, or monthly. (All loan payments for members of the uniformed services will be based on a monthly pay schedule.)
- ☐ your marital status
- ☐ if married (even if separated), information about your spouse, including your spouse's name, Social Security number and, if you are covered by CSRS, your spouse's address.

## **What additional information is needed to complete my loan request?**

**If you initiated your request on the TSP Web site,** the Loan Agreement will appear on your screen as you continue through the on-line process. The terms of the loan (including the amount of the loan, the interest rate, the amount of interest you will pay on your loan, the loan repayment period, the number of payments, and the amount of each payment) will be prefilled. (However, see page 12 for an explanation of why these terms could change when the loan is disbursed.)

Some participants may be able to complete the process on-line. If so, your “electronic signature” (that is, your SSN and PIN that were required for you to enter the secure Account Access Section) will confirm your agreement to the terms of the loan, your promise to pay, and your authorization for your employing agency or service to deduct your loan payments from your pay. If you would like to have your loan sent directly to your checking or savings account, provide the appropriate information on the Loan Agreement (either on the Web or on paper) to request the electronic transfer of funds (EFT).

In some circumstances, a participant will not be able to complete the process on-line:

- ☐ If you are a married FERS employee or married member of the uniformed services, you must obtain your spouse's signature on the Loan Agreement (unless you have a valid Exception to Spousal Requirements on file with the TSP Service Office). (See page 7, “Do my spouse's rights affect my loan?”)
- ☐ If you are a married CSRS participant and your spouse's whereabouts are unknown, you cannot complete your loan request on-line unless you have a valid Exception to Spousal Requirements on file with the TSP Service Office. (See page 7.)

- ❑ If you are requesting a residential loan, you must also complete and submit the Residential Loan Documentation Form (Form TSP-21-DOC for civilians; Form TSP-U-21-DOC for uniformed services) with your Loan Agreement. (See Appendix 2, Requirements for Residential Loan Documentation.)

In these instances, you will have to print the partially completed Loan Agreement (and if applicable, the Residential Loan Documentation Form and Exception to Spousal Requirements Form), provide the required information and signature(s), and return the completed form(s) to the TSP Service Office.

**If you completed a paper Loan Application** (Form TSP-20 or TSP-U-20) and sent it to the TSP Service Office, you will be sent a Loan Agreement. The agreement provides you with the terms of the loan, including the amount of the loan, the interest rate, the amount of interest you will pay on your loan, the loan repayment period, the number of payments, and the amount of each payment. (However, see page 12 for an explanation of why these terms could change when the loan is disbursed.) The Loan Agreement is also the promissory note; your signature on that document obligates you to repay the loan according to its terms.

Married FERS employees and married members of the uniformed services must obtain their spouse's signature on the Loan Agreement (unless they have a valid Exception to Spousal Requirements on file with the TSP Service Office). (See page 7, "Do my spouse's rights affect my loan?")

If you are requesting a residential loan, you must also complete and submit the Residential Loan Documentation Form (Form TSP-21-DOC for civilians; Form TSP-U-21-DOC for uniformed services) to document the costs associated with the purchase or construction of a primary residence. (See Appendix 2.)

The Loan Agreement (and any other required documentation) must be completed and returned to the TSP Service Office before the expiration date at the top of the Agreement.

### **What happens after I receive (or print out) the loan form(s)?**

You must review and complete all the required forms and return them to the TSP Service Office by the expiration date shown on the documents. The Service Office will review your loan form(s) and, for residential loans, your supporting documentation (see Appendix 2).

The Service Office may verify your documentation by calling your mortgage company or contractor.

If you do not return all the required documents by their expiration date, your loan request will be cancelled.

If you want to apply for a loan with different terms, send a new Loan Application or reapply on the TSP Web site. Do not alter the preprinted information on the Loan Agreement. The TSP Service Office cannot process an altered Loan Agreement.

### **What happens after I complete the Loan Agreement?**

*If you made your loan request on the Web and you were able to complete the process on-line, your loan will generally be disbursed within three business days. If you completed a paper Loan Agreement, and if your loan is approved, it will generally be scheduled for disbursement within three business days. You will receive a written confirmation of the loan disbursement.*

At the time of disbursement, the record keeper will send to your payroll office your loan payment information, which authorizes your loan payments to begin.

### **After I agree to the loan terms, will I receive the amount I agreed to?**

At disbursement, the TSP record keeper repeats the test that determines the maximum amount you may borrow using the value of your account on that day. (See Appendix 3.) In some cases (e.g., if you have experienced losses in the funds in which you are invested), the maximum loan amount may be less than the amount to which you agreed. However, if the amount available for you to borrow is at least \$1,000, you will receive a loan in the smaller amount. The interest rate and the amount of each loan payment will not change, but the repayment period may be shorter than you requested.

### **Where will my loan be sent?**

Loans are paid by check unless you choose to have the TSP send your payment directly to your checking or savings account by means of EFT.

If your loan is paid by check, it will be mailed to the address in your TSP account record. Therefore, if the address in your TSP account



record is not correct, contact your agency or service immediately and ask it to submit your correct address to the TSP. The TSP **can-not** use the address that you provide on your Loan Application to change your account address. You should wait to submit your request until you have confirmed that the TSP has received your address change from your agency or service.

If you request the TSP to send your payment to your checking or savings account by means of EFT, your payment will be sent electronically to the financial institution you designate. EFT is a safer method of payment than mailing a check to you.

### **How long will it take from the time I apply until I receive my check?**

The TSP disburses payments each business day. However, it can take several business days from the time the TSP record keeper receives all of your required forms and documentation until the processing of your loan request is completed. If you are able to complete your loan request on the TSP Web site, the processing will be completed sooner.

You or your financial institution should expect to receive your loan no later than two weeks after the time the TSP receives your completed request, although it will often be paid faster.

## V. Repaying a Loan

### How do I make loan payments?

You must make loan payments in substantially equal installments through payroll deductions.

When your loan is disbursed, the TSP Service Office will notify your payroll office to begin deducting loan payments from your salary each pay period and submitting them to the TSP record keeper. When the TSP receives each loan payment, it is credited to your account and invested in the same proportion as your most recent contribution allocation. For example, if your most recent payroll contribution allocates 50 percent to the G Fund, 25 percent to the C Fund, and 25 percent to the S Fund, your \$200 loan payment would buy \$100 worth of shares in the G Fund, \$50 worth of shares in the C Fund, and \$50 worth of shares in the S Fund.

The TSP will report your loan transactions on your quarterly participant statement.

**Note:** Making loan payments through payroll deductions may pose special problems for some members of the Ready Reserve or civilians with intermittent pay schedules. If the employee or member is not paid on a regular basis, loan payments will be late or missed altogether, which may result in a taxable loan distribution and an early withdrawal penalty tax. (See Section VI.) For this reason, members of the Ready Reserve whose drilling intervals are irregular (i.e., other than monthly) and civilians with intermittent pay schedules should consult with their agencies or services before taking a loan from their TSP accounts.

### Can I make additional payments to repay my loan?

Yes, you can make additional loan payments to restore your account more quickly or to make up for missed payments. Payments can be made by a personal check or money order. Checks or money orders must be made payable to the Thrift Savings Plan and must include your loan number and Social Security number.

You can also prepay your loan in full at any time without a prepayment penalty. Access the TSP Web site or call the ThriftLine to obtain the prepayment amount. This amount will include all unpaid principal and any unpaid interest.

You should send your payment with a Loan Payment Coupon. This coupon can be photocopied from Appendix 4 of this booklet or printed from the Forms & Publications section of the TSP Web site. You will receive a notice confirming your payment.

## **How can I avoid loan repayment problems?**

The TSP will report your loan transactions on your quarterly participant statement. Review your statement carefully and report any discrepancies to the TSP Service Office. In addition:

- ☐ If you are a civilian employee, be sure you provide your correct pay period (typically, biweekly) on your Loan Application. Then, review the terms on your Loan Agreement and be sure that the frequency of payments is correct.
- ☐ If you identify a problem with the Loan Agreement, you should reapply.
- ☐ After your loan is disbursed, check your earnings and leave statement to be sure loan payments have started and are in the correct amount. If your payroll office makes loan payments only in whole dollars, your loan payments should be rounded up to the nearest dollar.
- ☐ The initial payment is due not later than 60 days after the loan is issued. If your allotment does not start in the first full pay period after you receive your loan, notify your agency or service. If you need additional assistance, call the ThriftLine and speak to a participant service representative.
- ☐ If you receive a notice from the TSP Service Office indicating that you have missed loan payments, act quickly. Contact your payroll office immediately and follow up until the problem is corrected. However, you are still responsible for submitting any missed payments directly to the TSP. Failure to do so may result in a taxable distribution and possible penalty. (See page 19, "What happens when loan repayment problems are not fixed?")
- ☐ If your employment status changes or if you change payroll offices, follow up with your agency or service and the TSP to ensure that payments are continued properly. If any payments are missed, you are still responsible for sending the missed payment(s) directly to the TSP to avoid liability for income tax on the outstanding balance.

- ☐ If payments continue to be deducted after you have been notified that your loan was paid in full, contact your payroll office immediately.

### **Can I suspend my loan payments?**

No. When you agreed to the loan terms, you agreed to repay the loan in full and you authorized payroll deductions. However, if you are experiencing financial difficulties, you may be able to reamortize your loan to reduce your payment amount. If you are a civilian TSP participant who enters nonpay status or you are a member of the uniformed services who is not receiving pay (generally a possibility only for members of the Ready Reserve), see “What happens to my loan if I go into nonpay status?” on page 17.

### **Can I change the repayment period or the payments on my loan?**

Yes. You can reamortize your loan at any time to change the term or payment amount as long as your loan is not in default and you do not exceed the established limits of the loan program. If you transfer to an agency which has a different pay cycle from your current agency, you should request a reamortization to avoid being in default. There are no restrictions on the number of reamortizations that you can have during the life of a loan. You can reamortize your loan on the TSP Web site or by calling the TSP Service Office.

### **What happens if my payroll office changes?**

When you change payroll offices — for example, if you transfer from one civilian agency to another, from one component of the uniformed services to another, or from active status to Ready Reserve status — you must inform your new agency or service that you have a TSP loan and instruct it to continue your TSP loan payments. If your new payroll office does not begin your loan deductions promptly, loan payments will be missed, with possible significant adverse tax consequences to you. (See page 19, “What happens when loan repayment problems are not fixed.”) Check your earnings and leave statements and your participant statements to make sure your loan payments are current and correct.

## **What happens to my loan if I go into nonpay status?\***

Because TSP loan payments are made through payroll deductions, a period without pay will result in missed payments.

If you go into an approved nonpay status, loan payments can be suspended for the nonpay period, but only up to one year due to Internal Revenue Service (IRS) requirements. Interest will accrue while your payments are suspended.

A special rule applies if you enter nonpay status to perform military service. In that case, you will be permitted to suspend payments on your loan until you return to pay status even if this is longer than one year. (You cannot repay your civilian TSP loan by making loan deductions from your uniformed services pay.) If you (or your agency) do not provide proper notice of your period of military service, the suspension in loan payments cannot exceed the one-year period described above.

When you begin your period of nonpay status, you, your service, or your agency must submit documentation to the TSP. Documentation consists of:

- ☐ Form TSP-41 (for civilians) or Form TSP-U-41 (for uniformed services), Notification of Nonpay Status; or
- ☐ Form SF-50, Notification of Personnel Action; or
- ☐ A letter on agency or service letterhead, signed by an appropriate agency official, or your commander or adjutant, and containing your name, date of birth, and Social Security number; the beginning date of the nonpay status; and the signature and title of the agency or service representative providing the information.

When you return from nonpay status, you, your service, or your agency must notify the TSP of your date of return. You can send Form TSP-41 or TSP-U-41, Form SF-50, or a letter from your agency or service, as described above.

Your TSP payments must resume when you return to pay status (or at the end of one year of nonpay status, even if you have not returned to pay status). Your loan will be reamortized automatically when your agency or service informs the TSP that you have returned to pay status (or at the end of one year, whichever is sooner).

---

\* See page 6, “Can I get a loan if I am not currently receiving pay?” for the TSP’s definition of nonpay status for civilian and uniformed services TSP participants.

If your current loan payment amount will repay your loan in full by the maximum time limit (5 years for a general purpose loan; 15 years for a residential loan), your loan payment amount will not be changed. However, if your current loan payment amount will not repay the amortized loan in full by the maximum time limit, your loan payment amount will be increased to repay the loan within the limit.

However, if you are a civilian TSP participant and you go into nonpay status to perform military service, the term of your loan will be extended by the length of your military service even if this extension exceeds your original maximum time limit.

If you are on approved leave without pay to work full time for an employee organization under which your TSP contributions may continue, or if you are on an Intergovernmental Personnel Act (IPA) assignment, your loan payments must continue. Contact the TSP Service Office for instructions.

### **Can I make direct payments on my loan from my personal funds while I am in nonpay status?**

Yes. If you are in nonpay status (either as a civilian or as a member of the uniformed services) and want to continue making payments, you can do so by sending a personal check or money order to the TSP record keeper. Use the Loan Payment Coupon when you send in your payments. (See Appendix 4 or the TSP Web site.)

Any loan payments received by the TSP during the nonpay period will be taken into account when the loan is reamortized.

### **What happens to my loan if I am a civilian TSP participant and separate to perform military service?**

If you separate from civilian service to perform military service, you will be required to repay your loan in full or the loan will be declared a taxable distribution. However, you may be eligible to have your loan reinstated when you return to Federal civilian service. (See page 23.)

### **What should I do if my agency makes a mistake in my loan payments?**

Sometimes an agency or service may not start payments promptly or in the correct amount after a loan is issued. As soon as you identify

an error or missed payment on your earnings and leave statement, contact your agency or service to make a correction. You may also ask the TSP Service Office to assist your agency or service in making the necessary corrections. However, you are responsible for ensuring that correct loan payments are submitted on time, and *in order to avoid a taxable distribution, you must pay the missed amount directly to the TSP Service Office using your own personal funds*. Your payroll office cannot make up missed payments from your paycheck.

### **What happens when loan repayment problems are not fixed?**

Under IRS regulations, the TSP must identify each calendar quarter any loan account that is in default by an amount equal to or greater than one loan payment. If your loan is in default at the end of a calendar quarter, you will be notified and you will have until the end of the following calendar quarter to pay the missing amount. If you do not, your loan will be closed and a taxable distribution for the unpaid balance, plus accrued interest, will be declared. It does not matter whether your agency or service was responsible for the missed loan payment. If, for example, you transfer to another agency or service and there is a delay in that agency's or service's startup of your TSP loan payments, you must submit the missing loan payments directly to the TSP to avoid a taxable distribution and a possible early withdrawal penalty tax.

**Note:** Calendar quarters are January 1 – March 31; April 1 – June 30; July 1 – Sept 30; October 1 – December 31.

### **What happens if I leave Federal civilian service or the uniformed services?**

If you separate from civilian employment or the uniformed services, you must repay your loan in full, including interest. When your agency or service reports that you have separated, you will be sent a notice with instructions to repay your loan within 90 days.

If the TSP Service Office does not receive your repayment in full by the required date, the outstanding balance of your loan and any unpaid interest will be reported to the IRS as a taxable distribution. (See Section VI.)

An outstanding loan may delay the processing of a withdrawal from your TSP account if you have requested one.

**Note:** If you have both a civilian and a uniformed services TSP account and you wish to combine them when you separate, you must repay any outstanding loans in full in the account you will be closing before the two accounts can be combined.

### **What happens to my loan if I die?**

The outstanding loan balance plus any unpaid interest is reported as a taxable distribution to your estate. (See Section VI, Taxable Loan Distributions.) The distribution is not subject to an early withdrawal penalty tax. *Neither your estate nor anyone else may repay your loan.*



---

## VI. Taxable Loan Distributions

### What is a taxable distribution?

When a loan is not repaid according to the required rules, the amount of the unpaid principal and interest must be reported to the IRS as a “taxable distribution.” When a taxable distribution is declared, you will not receive any additional money; the taxable distribution simply accounts for the portion of your outstanding loan balance which you did not repay to your TSP account.

**Note:** If you have a uniformed services account and that account includes contributions from combat zone pay (which is tax-exempt), there will be no income tax payable on the portion of the distribution that represents contributions from combat pay.

### What are the consequences of a taxable distribution?

You will be liable for income taxes on the amount reported to the IRS and, depending upon your age and employment status, you may also be liable for a 10 percent early withdrawal penalty. The TSP Service Office will send you the appropriate tax form by January 31 of the year following the year the distribution is declared.

If you are eligible for the Saver’s Tax Credit, as provided in I.R.C. § 25B, any amount declared by the TSP as a taxable loan distribution within a specified time period must be deducted from the amount for which you are otherwise eligible.

If the taxable loan distribution is declared because you separated from civilian or uniformed service, you may roll over (within 60 days of the taxable distribution) any amount up to the taxable amount of the distribution into a traditional IRA or an eligible employer plan using your personal funds, thereby avoiding current tax (and the early withdrawal penalty tax, if applicable) on that amount.

**Note:** If you are a member of the uniformed services and your account includes tax-exempt contributions, a portion of your loan distribution will be reported as tax-exempt. If you are separated, that amount can also be deposited into an IRA if the IRA will accept tax-exempt balances.

You should consult the IRS or a tax advisor for authoritative information and advice if a taxable distribution of your loan is declared.

## **What are the circumstances under which a taxable distribution is declared?**

A taxable distribution of the unpaid principal and any unpaid interest is declared if:

- ☐ you leave civilian employment or the uniformed services without repaying your loan in full, or
- ☐ your loan was identified as being in default and you did not submit the required amount by the deadline, or
- ☐ your loan was not repaid in full by the required time limits\* of 5 years for a general purpose loan and 15 years for a residential loan, or
- ☐ you have provided information related to this loan that is found to be false, or
- ☐ you are a debtor in a chapter 13 bankruptcy action and a court order requires that you stop your loan payments, or
- ☐ you die before your loan is repaid in full.

## **How does a taxable distribution affect my TSP account?**

If a taxable distribution of your loan is declared, the loan is closed and you can no longer repay it. This means that your final account balance available for your retirement will be less than it otherwise would be. Therefore, if you take a loan from your TSP account, you should check your earnings and leave statement on a regular basis to ensure that your loan payments are being made properly. You should also review your loan information on your quarterly participant statements for the same purpose. If your agency or service makes an error by not deducting your loan payments or by deducting loan payments in an incorrect amount, it is important that you contact your agency or service immediately to resolve the problem. *However, you must pay any missed amount directly to the TSP yourself to avoid a taxable distribution.*

---

\* These time limits may have been extended if TSP records show that loan payments were missed because you entered nonpay status due to military leave.

## **Can I reverse a taxable distribution caused by separation for military service?**

You may be eligible to reverse the taxable distribution when you return to Federal civilian service. Contact the TSP Service Office to determine your eligibility.

If you are eligible, the TSP will reverse the taxable distribution and reinstate the loan so you can resume loan payments, but only if you can repay the loan within the original time limits of the loan plus the period of military service, and if this will result in your having no more than two loans outstanding. If loan payments cannot be reinstated, you will be given an opportunity to repay the loan in full.

## **Does a taxable distribution affect my eligibility for another loan?**

Yes, unless the taxable distribution was declared because you were separated from service. After a taxable distribution of your loan is declared, you may not apply for another loan from that account within 12 months of the date of the taxable distribution.

## **What effect does a bankruptcy action have on my obligation to repay my loan?**

The answer depends on whether you file an action under chapter 7 or chapter 13. See the TSP Fact Sheet “Bankruptcy Information” for more details. The fact sheet is available from your agency or service or from the TSP Web site.

## APPENDIX 1. The Cost of TSP Loans

When you borrow from your TSP account, loan payments (including interest) are deducted from your pay and deposited to your TSP account. Although you are restoring funds to your TSP account during the life of the loan, those funds and their earnings may not equal what you would have had if you had not borrowed from your account. Borrowing from your TSP account will affect the final account balance available for your retirement. The following examples illustrate the effects of borrowing.

**The Cost of Residential TSP Loans.** Let's assume that you need to borrow \$10,000 to purchase a home, and that a mortgage loan is available from your bank at 7% for 15 years. The monthly loan payments (principal and interest) would be approximately \$90, and, over the life of the loan, you would pay about \$6,200 in total interest. But mortgage interest is a tax-deductible expense on your Federal income tax return, and so, if you are in the 28% Federal tax bracket, the effective interest cost of your loan would be reduced to about \$4,500.

The \$10,000 that remains in your TSP account — because you borrowed from the bank — would continue earning for the next 15 years. Let's assume that \$6,000 of your account is invested in the G Fund and \$4,000 in the C Fund. Using hypothetical compound annual rates of return of 8% and 15% for the G Fund and C Fund,\* respectively, your TSP account would earn approximately \$41,600 over 15 years. Therefore, your "net earnings" at the end of 15 years would be \$37,100 (\$41,600 – \$4,500) if you borrow from the bank.

Now, let's suppose you borrow the \$10,000 from your TSP account instead of the bank. If you do, you will not have to pay the \$90 per month to the bank, but you will also lose much of the \$41,600 in earnings you otherwise would have received on your TSP account. Also, the "interest" you pay yourself for a TSP loan is not tax-deductible.

To illustrate: If the TSP loan rate is 6%, you will have to repay approximately \$84 per month to your account for 15 years. (As in the above example, assume that your contribution allocation is 60% to the G Fund and 40% to the C Fund over the 15-year repayment period,

---

\* These rates of return and all others assumed in this discussion are not intended to be projections of future rates; they are used for illustration only.

so that your repayments go into the two funds in those proportions.) At the end of 15 years, you will have restored your TSP account balance to \$10,000, but — using the same G and C Fund annual rates of return as above — you will have earnings of only about \$27,500.

To offset the diminished TSP earnings somewhat, the \$6 savings between the monthly bank loan payment and the monthly TSP payment (\$90 – \$84), if invested at, say, 5% over 15 years, would be worth approximately \$1,500 to you — about \$1,100 in savings and about \$400 in interest (after Federal taxes of 28%). Therefore, your “net earnings” at the end of 15 years would be \$29,000 (\$27,500 + \$1,500) if you borrow from your TSP account.

The difference between your earnings when you borrow from the bank and your earnings when you borrow from your TSP account is \$8,100 (\$37,100 – \$29,000), which is the cost of borrowing from your TSP account.

**The Cost of Other TSP Loans.** If you need to borrow money for some other purpose, it may be less expensive to borrow from your TSP account than to borrow from commercial sources.

For example, assume your best alternative to borrowing from your TSP account is a 4-year personal bank loan of \$10,000 with a 15% interest rate, which would require monthly payments of approximately \$278. You would pay approximately \$3,300 in interest over 4 years on this loan, which is not tax-deductible. Your TSP earnings on the \$10,000 that remain in your account (\$6,000 invested in the G Fund and \$4,000 in the C Fund over the term of the loan at the hypothetical compound annual returns of 8% and 15%, respectively) would be about \$5,200 over the 4 years, for “net earnings” of \$1,900 (\$5,200 – \$3,300).

However, if you borrow \$10,000 at 6% from your TSP account to be paid back over 4 years, your monthly payments will be about \$235. In 4 years, your account will be restored to \$10,000, and you will have earnings of approximately \$3,900.

In addition, if you invest the \$43 difference between the monthly bank loan payment and the monthly TSP payment (\$278 – \$235) at 5% over 4 years, you would have approximately \$2,200 in savings and interest (after Federal tax of 28%). Your “net earnings” after 4 years would therefore be about \$6,100 (\$3,900 + \$2,200).

The difference between your earnings when you borrow from your TSP account and your earnings when you borrow from a bank is \$4,200 ( $\$6,100 - \$1,900$ ). Thus, upon the assumptions given, it would be less expensive to borrow from your TSP account than from the bank.

**Summary.** Although the principal and interest you pay back to your TSP account during the life of your loan will restore funds to your TSP account, there are costs of borrowing from yourself as illustrated above. Be sure you understand the financial effects of borrowing before proceeding with your TSP loan.

---

## APPENDIX 2. Requirements for Residential Loan Documentation

You may obtain a residential loan for the purchase or construction of your primary residence. Your residence may be a house, condominium, or cooperative, or a mobile home, recreational vehicle (RV), or boat, *but it must be used as your primary residence*.

For a house, condominium, or cooperative, the documents must clearly show the cost of the residence to which you want to apply the loan, the full address of the residence, and that you are the purchaser. For a cooperative, the documents must also clearly show that you own shares in a cooperative housing corporation.

Your primary residence must be purchased (in whole or in part) by you or your spouse. If it is being purchased with a person other than your spouse, you must indicate your share of the purchase cost(s) on the Residential Loan Documentation Form.

You may obtain a TSP residential loan for the construction of a new residence. You may *not* obtain a residential loan to refinance or pre-pay an existing mortgage, and you may *not* obtain a residential loan for the renovation of, or an addition to, an existing residence or for a buyout of another person's share of your existing residence. The purchase of land is *not* eligible for a residential loan unless combined with evidence that you are constructing an entire residence on the land. If this is the case, you must submit evidence, in the form of building permits, receipts, or other third-party documents, that a complete residence will be constructed.

The documentation submitted for the purchase of a mobile home or RV as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying number, and address where the vehicle will be located. If the vehicle you are purchasing is an RV, you must also provide a complete description of the vehicle's facilities and accommodations and a signed statement indicating that it will be your primary residence.

The documentation submitted for the purchase of a boat as a primary residence must show that you are the purchaser and must include the sales price, serial number or other identifying numbers, and a complete description of the on-board facilities and accommodations. The documentation must also include a letter from the marina or other location where the boat will be moored and a signed statement from you indicating that it will be your primary residence.

Your documentation must:

- ☐ Be from a third party (i.e., someone who is selling the home to you or building the home for you — for example, a building contractor, a real estate firm, or a mortgage company).
- ☐ Show you or your spouse as the purchaser or builder.
- ☐ Show the purchase price or construction price.
- ☐ Show the full address of the residence.
- ☐ Be dated no more than 24 months before the date your loan application is received.

***Examples of Acceptable Documentation:***

- ☐ Copy of the complete purchase contract showing the sale price.
- ☐ Copy of the settlement sheet. Some costs shown on the settlement sheet may not be eligible for a TSP loan. Only the contract price and, in general, those costs that can be added to the cost basis of the residence for Federal income tax purposes are eligible for a TSP loan.
  - Examples of items that *can be added* to the cost basis include: title charges, such as settlement fees, attorney's fee, title search fee, title insurance fee, and notary's fee; government recording and transfer charges, such as deed and mortgage recording fees, and city, county, and state tax stamps; and items payable in connection with the loan, such as fees for appraisal, credit report, and inspection.
  - Examples of items that *cannot be added* to the cost basis for a TSP loan include: real estate taxes; loan origination fees, interest charges, and points (whether or not the points are included in the cost basis for Federal income tax purposes); utility expenses; and any costs that have been borne by the seller. A lease-to-buy option is not eligible unless you are exercising the option to buy.
- ☐ Copy of the construction contract(s) showing the building cost, if you are having your home built.
- ☐ Copy of building permits, receipts, assessments, or other documents that *clearly* demonstrate that an entire residence is being constructed if you are building your home yourself. In addition, you must provide evidence of costs in an amount at least equal to the loan amount.

*Do not send original documents; they will not be returned to you.*



## APPENDIX 3. Worksheet for Estimating Your Maximum Loan Amount

Under the laws establishing the TSP, you can never borrow more than your own contributions to your TSP account and associated earnings. In addition, the Internal Revenue Code imposes further restrictions on the amounts that you can borrow. These laws require a three-part test to ensure that the principal amount of a loan is less than or equal to the *smallest* of the following amounts:

- (1) your contributions and their earnings in your civilian **or** uniformed services account (that is, the account from which you are taking the loan), not including any outstanding loan balance (the Contributions and Earnings Test),
- (2) 50 percent of your total vested account balance\* (including any outstanding loan balance) or \$10,000, whichever is greater, minus any outstanding loan balance (the IRS Vested Balance Test), or
- (3) \$50,000 minus your highest outstanding loan balance, if any, during the last 12 months (the IRS \$50,000 Test).

If you have a civilian and a uniformed services account, the combined account balances and loan balances will be used to calculate Items 2 and 3.

Before you send in your Loan Application, you can access the Web site at [www.tsp.gov](http://www.tsp.gov), call the ThriftLine at (504) 255-8777, or use the worksheet on page 30 to estimate your maximum loan amount. The left-hand column of figures provides an example. Fill in your own set of figures in the right-hand column.

---

\* Your *vested* account balance is that amount of money in your TSP account which belongs to you and to which you are entitled if you leave service. You are *always* vested in your own contributions and their earnings. You are also always vested in the matching contributions your agency or service makes to your account, as well as in the earnings on those contributions.

Most FERS employees become vested in the Agency Automatic (1%) Contributions (and earnings on those contributions) after completing 3 years of Federal civilian service. FERS employees in congressional and certain non-career positions become vested in their Agency Automatic (1%) Contributions (and earnings on those amounts) after completing 2 years of civilian service.

# Worksheet for Estimating Maximum Loan Amount

	Example	Your own figures
<b>Your account status when loan application is made</b>		
1. Your contributions and earnings in your account	\$10,000	_____
2. Your vested account balance plus your outstanding TSP loan balance, if any	\$25,000	_____
3. Your highest outstanding TSP loan balance in the last 12 months, if any (from your quarterly statements, increased by loan disbursements made to you in the current quarter)	\$4,000	_____
4. Your current outstanding TSP loan balance, if any (from your last quarterly statement, decreased by loan payments made by you in the current quarter)	\$3,000	_____
<b>Calculation to determine your maximum loan amount</b>		
5. The Contributions and Earnings Test (Item 1)	<b>\$10,000</b>	<input type="text"/>
6. The IRS Vested Balance Test		
(a) Enter your vested account balance plus your outstanding loan balance, if any	\$25,000	_____
(b) Calculate ½ of line (a)	\$12,500	_____
(c) Enter \$10,000	\$10,000	<u>\$10,000</u>
(d) Enter larger of line (b) or line (c)	\$12,500	_____
(e) Enter your current outstanding loan balance, if any	\$3,000	_____
(f) Subtract line (e) from line (d)	<b>\$9,500</b>	<input type="text"/>
7. The IRS \$50,000 Test		
(a) Enter \$50,000	\$50,000	<u>\$50,000</u>
(b) Enter the amount of your highest outstanding TSP loan balance in the last 12 months (Item 3)	\$4,000	_____
(c) Subtract line (b) from line (a)	<b>\$46,000</b>	<input type="text"/>
8. Maximum new loan amount you can borrow is the <i>smallest</i> of the amounts in the boxes on lines 5, 6(f), and 7(c)	<b>\$9,500</b>	<input type="text"/>

## Appendix 4      Loan Payment Coupon

Name \_\_\_\_\_  
Last First Middle

Social Security Number \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Send a separate check for each loan.

Loan Number \_\_\_\_\_

Payment Amount \$ \_\_\_\_\_

Date of Check \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_      Check Number \_\_\_\_\_  
mm dd yyyy

Loan Number \_\_\_\_\_

Payment Amount \$ \_\_\_\_\_

Date of Check \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_      Check Number \_\_\_\_\_  
mm dd yyyy

Be sure to include your Social Security number and Loan Number(s) on your check. Your payment should be mailed to:

TSP Service Office  
P.O. Box 61820  
New Orleans, LA 70161-1820

*(Photocopy as needed.)*

